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The Nest Egg

Tax-Time Savings Innovations for Lower-Income Households

America's dismal savings rate—actually negative in 2005—has profound national and personal implications, especially for lower-income families lacking savings to fall back on in difficult times, to finance a home, or to pay for a child's education.

Research shows that the poor can save when provided with innovations in products and processes that make saving more accessible.¹ The right time to offer savings options is when people have funds. For many American families, especially lower-income families eligible for the earned-income tax credit (EITC) and the like, that is tax time. So nonprofit grassroots organizations that help the poor to file taxes at Volunteer Income Tax Assistance (VITA) sites have been working with corporate partners to explore low-cost, scalable, innovative ways to help lower-income families save.

The Right Time, the Right Tools

Millions of Americans receive substantial refunds from a combination of tax credits and over-withholding. In 2004, more than 100 million tax-filers received \$200 billion plus in federal tax refunds. More than 65 million tax-filers with annual incomes of less than \$40,000 received \$110 billion, averaging \$1,680 per filer, in 2005.² It is both common sense and good policy to make it

easier for such households to save when they learn their tax refund amounts at filing.

One easy, innovative, policy-oriented technique is tax-refund *splitting*. Historically, for refund recipients wishing to send some of their refunds directly to savings accounts, it was an all-or-nothing proposition. Saving required two steps: waiting to receive one's entire refund and then depositing a portion into a savings account.

But in 2005, the Internal Revenue Service began offering split-refund options on tax forms. As a result, filers could make single-step decisions to send part of their refund to savings and the remainder to checking. Currently the saving option applies only to the 50 million Americans who use direct deposit, since that is a requirement. But the split-refund option opened another door to savings opportunity for another group of potential savers—lower-income Americans.

Doorways to Savings

VITA sites, which offer free, community-based, tax preparation to lower-income families, are doorways to savings. Because there are nearly 12,000 sites at which 3 million people receive help filing returns annually, VITA sites are ideal for supporting savings innovations.

Still, significant barriers remain. For one, many lower-income people come to

tax preparation without a savings account. In one 2006 survey of VITA site clients, 47 percent reported having no savings account.³ Anecdotally, 10 percent to 20 percent more are completely unbanked. To help clients open accounts at tax time, sites often bring in bankers. For large sites, that may be reasonable. But many sites have difficulty attracting banks, which may consider participation uneconomical. The problem is especially pronounced at smaller sites and in rural locations.

Consequently, VITA sites and their partners are experimenting with other routes to savings opportunities for clients. Several partnerships are using potentially scalable innovation to get interesting results.

Tennessee

The Nashville Wealth Building Alliance (NWBA), an organization supporting 15 VITA sites, had a problem with its mobile tax preparer. The mobile preparer brought tax preparation to clients unable to get to a VITA site—often people living at homeless shelters, halfway houses, and domestic violence sanctuaries. In 2008 NWBA's mobile preparer served 20 locations, where many residents lacked savings accounts. That presented a challenge.

NWBA contacted Austin, Texas-based Nets to Ladders about its Savings Point



(SP) product. SP is web-based software that enables VITA volunteers to open on-the-spot bank accounts. Coupled with a scanner and signature pad, the system functions as an online document-capture and -delivery system. With SP in hand, NWBA next needed a bank partner comfortable with the new technology.

Before the 2008 tax season began, NWBA approached 10 banks without success. Some cited concerns with Banking Security Act compliance; others noted the need for long lead times for proposal approval. Finally, a local institution, First State Bank, agreed to participate.

NWBA installed SP at the mobile preparer and at one large VITA site, giving 1,750 tax clients the opportunity to open a bank account at tax time. Seventy clients did so, and more than \$22,760 in savings was generated.

Delaware

The Nehemiah Gateway Community Development Corporation, headquartered in Wilmington, oversees the operation of 20 VITA sites throughout Delaware. A bigger operation on a bigger scale than the mobile preparer project at NWBA, Nehemiah wanted to provide savings options at all of its sites. It approached the Delaware banking community with a request for proposals in summer 2007. The RFP asked banks to provide a flexible savings product for the program, offsite processing, and approval of account opening—coupled with immediate creation of savings account numbers for the tax form. Like the Nash-

ville group, Nehemiah wanted to be able to open savings accounts at tax sites without a banker onsite.

Three banks played a major role in providing account options during the 2008 tax season—two state-based banks (WSFS Bank and Artisans' Bank)—and the Internet bank GMAC Bank. These three provided savings accounts and certificates of deposit that could be opened over the phone or, for Artisans', via a secure intranet. Trained VITA staff collected and checked necessary documentation—collecting signatures and providing disclosures—for subsequent delivery to participating banks. Meanwhile, the banks issued account numbers to the sites as needed.

At the end of tax season, almost 500 savings accounts had been opened in Delaware, split evenly between savings and certificates of deposit. Says Mary Dupont, Nehemiah executive director, "This is a way to capture the 'money moment' and motivate our customers to save when they have money on their mind."

Savings without Savings Accounts

Boston-based nonprofit D2D Fund Inc. wondered if any savings product existed that did not require opening an account.⁴ To meet tax-filers' needs, the product would have to provide a solid yield, support long-term savings, be universally available, and offer low risk. U.S. Savings Bonds met the requirements.

Although the bonds have always been available if potential savers know about them, form the intention to buy them, and travel to an appropriate financial institution to purchase them, many lower-income families do not fit that description. D2D next wondered (a) would tax-filers want savings bonds and (b) could they be made easily available at multiple sites?

Seeking answers, the nonprofit partnered with H&R Block to create a web-based ordering tool.⁵ Throughout the 2008 tax season, 32 VITA sites across the country used the tool. More than 25,000 lower-income tax clients were offered the opportunity to purchase bonds, and 1,086 purchasers did so, generating over \$200,000 in savings. D2D calculated the take-up rate for eligible purchasers at 6 percent, better than the 3.3 percent take-up of IRAs for tax clients in another test.⁶ Most bond buyers had heard of U.S. Savings Bonds before. Almost three-quarters reported themselves "familiar" with savings bonds, whereas only

34 percent were familiar with certificates of deposit and 26 percent with IRAs.

Bonds also allow people to easily save on behalf of others, and in 2008 at the 32 VITA sites, 68 percent did so. Saving for their children was a major objective for 59 percent of bond buyers.

D2D and its partners hope to see policy changes that will enable the scaling up of the savings bond option. In the 1960s, the tax form included a checkbox allowing a filer to automatically purchase a savings bond. That was removed later (probably because split options were not available and few people chose to save their entire refund). D2D recommends restoring that option. Then, with refund splitting, millions of Americans could make the easy decision to buy a bond at tax time with part of their refund.



Barriers to scaling up savings options remain. Banks are often wary; reliance on onsite sales and savings promoters is an expensive proposition; and the up-front investment in partnership building and process creation is daunting. Nevertheless, if the working poor are ever going to be able to move up, they will need ways to save, and the current initiatives are among the most promising to date.

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Endnotes

¹ See Sondra G. Beverly and Michael Sherraden, "Institutional Determinants of Saving: Implications for Low-Income Households and Public Policy," *Journal of Socio-Economics* 28 (1999): 465.

² See <http://www.irs.gov/pub/irs-soi/05in33ar.xls>.

³ Stephen Holt, "National Tax Assistance for Working Families Campaign: 2006 Report Series" (Milwaukee, Wisconsin: Holt & Associates, unpublished).

⁴ D2D was originally known as Doorways to Dreams.

⁵ Find the tool at www.d2dfund.org.

⁶ See Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," no. 2005-5, Retirement Security Project (May 2005). In this test, clients needed a refund of at least \$300 to open an IRA and thus were drawn from a higher-income sample.

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